

From Socialism to Socialism: A Property Rights Analysis of The Transition in Europe

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"A defining feature of the 20th century was the struggle between capitalism and socialism...Consistent with the socialist doctrine as it developed in the eighteenth and nineteenth centuries, fascism, national socialism and communism blamed the economic and social inequalities of capitalism on the behavioral consequences of private property rights and competitive markets. All three types of socialism shared the major premise that their respective visions of a 'just' society should replace the spontaneous order of capitalism. This premise provided fascists, national socialists and communists with **the political justification to replace individual liberties and the rule of law with the rule of men.** Hence, all three types of socialism were manifestly unconstrained by law, customs and morality. The individual was a mere instrument for the achievement of the ends as defined by the ruling elite. Communism was openly hostile to the right of ownership, whereas fascism and national socialism settled for controlling and directing the use of resources nominally owned by individual citizens. Like the competing families of the underworld, fascism, national socialism and communism went to war (hot and cold) with one another as well as with the rest of the world." (p.1)

"...Two important lessons of all socialist experiments to date are: (1) socialism has repeatedly failed to duplicate the accomplishments of capitalism, and (2) socialism refuses to die. The failure of all the different types of socialism has never discouraged the critics of capitalism. Every time one type of socialism has failed, anti-capitalists have been quick to come up with a new one...**At the turn of 21st century socialism is on the march once again. Western Europe is in the process of transition from social democracy to socialism. Socialists and pro-collectivist parties in Central and Eastern Europe are recovering after the collapse of communism. What in the early 1990s was supposed to be a transition from socialism to capitalism is slowly turning into a transition from socialism to socialism. The European Union is helping the transition to socialism via numerous regulations supportive of "fair trade," wealth redistribution, environmentalism, global warmings, and multiculturalism, all of**

which require government control over the allocation of resources [ENVIRONMENT-CENTRIC SUSTAINABLE DEVELOPMENT].” (p. 2)

“Given the lessons of history, there is no compelling reason to assume that **this new type of socialism that is emerging on the European continent--I call it *liberal socialism*--** will not, like its predecessors, fail to duplicate the economic efficiency of capitalism. The transition to liberal socialism in Europe is an ongoing process, which means that for the moment, analysis of it has to be tentative. Yet, the costs of ignoring the emerging liberal socialism and its economic consequences could be high.” (pp. 2-3).

“...The discussion in this paper is restricted to continental Europe. I conjecture that, as of this writing, continental Europe has monopoly on liberal socialism. The United Kingdom might be on the road to join the rest of Europe. As for the United States, the jury is still out. The Obama Administration is using the current economic crisis to open the gates for the importation of liberal socialism into the United States. Obama’s first budget and his initial bunch of executive orders are not just about “spreading the wealth around”. **They are tailored to change the character of the United States economy along the lines of European social democracies.** However, the United States does not have a tradition of European social democracy, a close relative of liberal socialism, and nor have American intellectuals ever shared the fascination of Western European intellectuals with socialism doctrine. Hence, the outcome of Obama’s policies in the United States is far from certain. **Obama and his advisors have been supporting their quest for change arguing that the current crisis has proved that “unrestrained” free markets do not work. Their remarks are misleading at best and dishonest at worst.** The statements are misleading because Obama and his advisors are not telling us which system has done better than Anglo-American capitalism in aligning productivity with rewards; what is the system they want to invoke to replace the free-market, private economy, and on what evidence? The statements are also dishonest because recessions do occasionally occur in capitalist countries, and they always end. On the other hand, recessions have yet to end in socialist states.” (p.3)

“...**Liberal socialism**, like its predecessors, has two interdependent objectives that set it apart from capitalism: **(1) the state should control the use of resources, and (2) collective choice should replace the rights of individuals to pursue their ends. Individual preferences need to be shifted in more acceptable directions.** The French term dirigisme correctly describes this mind-set.” (pp. 6-7).

“**Liberal socialism** has also two characteristics that set it apart from its socialist predecessors. (1) Liberal socialism maintains free and democratic elections. **However, it substitutes the will of the majority for the constitutional protection of the rights of individuals.** (2) Liberal socialism accepts private property rights. However, liberal socialism seeks specific outcomes. The attainment of pre-determined outcomes means that **the state has to attenuate private property rights.**

Attenuation of private property rights refers to restrictions on three things: on the exclusivity of ownership (e.g., the owner of an apartment cannot simply tell a tenant to vacate the place), **or on the transferability of ownership** (e.g., price controls), **or on the legal protection of private property rights** (e.g., the enforcement of property rights in Russia). **The attenuation of private property rights then weakens the freedom of owners to use their goods in accordance with their subjective preferences; enables the state to replace competitive markets by choosing winners and losers in total disregard of individuals' subjective preferences; and raises the transaction costs of allocating resources to their highest-valued uses.** The fact that European leaders seriously consider the concept of "fair trade" is the best evidence that liberal socialism attenuates private property rights and rejects the spontaneous order that emerges from the voluntary interactions of individuals in open markets. Fair trade is ostensibly a neutral term, but it has distinctly non-neutral implications. It imposes non-market terms of exchange between developed and developing countries. The term is also used by labor unions in developed countries to demand restrictions on the import of goods produced by "exploited" workers elsewhere. In essence, fair trade is a façade of words hiding attenuation of the transferability of private property rights." (p.7)

"The rejection of spontaneous order via the attenuation of private property rights defines the major philosophical difference between capitalism and liberal socialism. **Liberal socialism sees the community as an organic whole that has a common good. The term common good or, to use modern jargon, social justice, is a façade of words hiding redistribution of wealth organized and directed by people who do not own the resources being distributed.** I conjecture that the term social justice masks the behavior that is most damaging to the rights of individuals. In contrast, the capitalist community is a voluntary association of individuals who enter and leave the community in the pursuit of their own ends. The function of capitalist institutions is to enhance individual interactions leading to unknown outcomes." (pp. 7-8).

"...**Liberal socialism is suspicious of freedom of choice** not because of any lack of interest in individual liberties but **because individual choices in the free market do not generate output and income distribution consistent with the concept of common good or social justice.** To remedy this shortcoming, liberal socialism attenuates private property rights. The attenuation of private property rights, as argued earlier, interferes with voluntary interactions among free individuals. Interference with voluntary interactions in open markets means interference with the subjective preferences of interacting individuals. And interference with the subjective preferences of interacting individuals, in turn, interferes with the flow of goods and services from lower- to higher-valued uses." (p. 9).

"...**The backbone of the Anglo-American common law tradition is that the primary function of private property rights is to serve the subjective preferences of property owners.** Those preferences create incentives leading to efficiency-friendly behaviors. **The political and legal tradition of Western Europe (not including the United Kingdom and Ireland, two common law countries) has constrained the function of private property rights from serving the subjective preferences of owners.** And

liberal socialism feeds on those constraints. In many West European countries the owner of an apartment cannot simply ask a tenant to vacate the place within a customary period. German law protects private property rights as long as they serve "human dignity" and welfare programs (Alexander 2003). The owner of a business in Spain is reluctant to hire workers because the costs of firing them are high. In France, the owner has to pay a tax (penalty) in order to close down an establishment. The Italian legal system protects private property rights only insofar as they serve a social function as defined by the state (Mingardi 2005)." (pp. 11-12).

"...In Central and Eastern Europe the social forces affecting the attenuation of private property rights are different from those in Western Europe. Except for lingering memories of the rule of law in the parts of Central and Eastern Europe that belonged to the Austro-Hungarian monarchy, the years of socialist rule have completely destroyed people's confidence in the legal system. **The law is perceived as a mechanism rulers use to do whatever they want; the law is taken no more seriously than the promises of used car dealers. The prevailing culture in Central and Eastern Europe is not homogeneous, but it has a bias toward collectivism, egalitarianism, and shared values that pre-dates communism.**" (p. 12)

"...Predictably, **some people in the countries of Central and Eastern Europe (especially the Czech Republic and Slovakia) see the flow of regulations coming down from Brussels as a betrayal of the post-communist hope for a society of free and responsible individuals.** Many others see EU regulations as replacing the old despotic dictatorship with a flow of benevolent rules that help to control corrupt domestic politicians." (pp. 14-15).

"The issue that affects all member countries is that the EU has added one more layer of bureaucracy to those already existing in member countries. **Like all bureaucracies, EU bureaucracy has strong incentives to grow.** And issuing and enforcing regulations is the most efficient way for any bureaucracy to grow. Some regulations enacted by the EU are pro-free market, while others are not. However, the distribution of pro-free market vs. anti-free market regulations is not as important for judging the direction of economic changes as is the power of the Brussels bureaucracy to issue and enforce regulations. **And it is this regulatory power of the Brussels bureaucracy that cannot and shouldn't be trusted.** Professor Epstein...understood the problem and formulated his impressions of the direction of the EU as follows: **the proposed EU Constitution 'allows for such dominance at the center that it will take a political miracle for that competition to play a powerful role in the affairs of the EU.** By giving rights with one hand and taking them away with the other, this proposed EU Constitution lacks any clear definition and structure...But **when the dust settles, there will be more government and less freedom for all.** ... My recommendation is therefore this: Opt for the economic free trade zone and consign the EU Constitution to the dust heap.' The evidence suggests that Epstein got it right." (p.15)

"...Vaclav Klaus has frequently spoken and written about the way Brussels has **highjacked the great idea of creating a United Europe based on free trade and individual liberties.** In a 2009 lecture he said: "The ongoing weakening of democracy

and of free markets on the European continent, connected with the European unification process, is a threatening phenomenon...[It] was the main building block of the European Constitution and it remains without substantial change in the new version, in the Lisbon Treaty.” **Klaus is right. When the proposed Constitution was voted down, Brussels started emphasizing the Lisbon Treaty. Now that the Lisbon Treaty is not working out either, there is talk of doing something else in order to get things right. We observe that every time a country votes down a preferred EU rule or proposition, Brussels tries to engineer another election, and then another, until the rule wins a majority vote. Once that happens, another election is never suggested.**” (pp. 15-16).

“Professor O’Hear...wrote that **one important consequence of Brussels’ hunger for power is that ‘the enterprise to which the EU is committed is first and foremost the creation of itself as a supra-governmental authority, a task of Hegelian pretension and of Sovietic proportion.’** Professor Norm Barry...has argued that **EU leaders have no intention of enacting a body of laws that would take away their discretionary powers:** “As long ago as 1964, the Costa vs. ENEL decision from the European Court of Justice (ECJ) struck down an Italian statute that happened to conflict with an EU regulation on the ground that European law was superior to domestic legislation. It was the beginning of the activism of the ECJ.” **Klaus has been even more specific about the effects of ‘harmonization.’ The essence of his position is that Brussels has been attenuating private property rights, constraining free-market competition, eroding the sovereignty of member states, and transferring decision making from member states to Brussels. Brussels is also reinventing a watered-down version of the *Komsomol* [the Russian *Kommunisticheskiy Soyuz Molodyozhi* (Коммунистический союз молодёжи), or "Communist Union of Youth"]. Europe is flooded with programs providing stipends for young people to spend time at various institutes and schools learning about the essentials and benefits of the EU. Some of these institutes are run by the EU (e.g., one in Torino at Villa Gualino), while others receive EU grants. Conversations with people participating in the projects financed by European taxpayers quickly reveal that **the sole purpose of these programs is to brainwash young European intellectuals into becoming "the young army of the EU"**.” (p. 16).**

“...Many years ago, Professor Nutter...provided a succinct and powerful description of the policies pursued by the Soviet leadership:

It was Lenin’s genius to recognize the importance of embellishing the Soviet system with all the trappings of democracy. If the people want a constitution, give them one, and even include the bill of rights. If they want a parliament, give them that, too. And a system of courts. If they want a federal system, create that myth as well. Above all, let them have elections, for the act of voting is what the common man most clearly associates with democracy. Give them all these, but make sure that they have no effect on how things are run.

The same description seems to fit the current EU leadership. The story of the EU is the story of an unstoppable drive to replace local laws with Europe-wide rules leading to

centralization of power in Brussels. And in the process of centralizing power in Brussels, the EU has been supporting the development of liberal socialism in Europe.” (pp. 16-17).

“...**The concept of industrial democracy is an umbrella for all the different methods of attenuating private property rights in business firms.** Three interdependent consequences of industrial democracy are the growth of bureaucracy, labor participation in the management of business firms, and redistribution of wealth. Industrial democracy was thriving in Western Europe and the EU long before the fall of socialism in Central and Eastern Europe.” (p. 20)

“...**Liberal socialism** preserves private business firms. However, it attenuates the bundle of rights defining privately owned firms. And the attenuation of that bundle of rights has consequences...One such consequence is an increase in the cost of capital. A growing body of literature shows that business firms in countries with Anglo-American capitalism earn returns on investment that are at least as large as their costs of capital, while enterprises on the continent of Europe earn on average returns on investment below their costs of capital.” (p.22)

“...**One form of attenuation of private property rights is the control of profits** earned by business firms; public utilities in the United States have operated for decades under this type of arrangement.” (p. 25).

“...**The control of profit earned by business firms, like most other forms of attenuation of private property rights, has two consequences: redistribution of wealth and re-allocation of resources.**” (p. 26)

“...**It is obvious that the control of profit results in redistribution of income from shareholders to managers. Much less obvious is that this redistribution of income reduces the community’s wealth.** Reporting expenditures on nonpecuniary goods as costs of doing business limits the kind of goods the managers can get away with purchasing for themselves. This means non-reported profits...are not allocated to their highest-valued uses.” (p. 27)